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SUBJECT: IRISH BANKING SYSTEM RECEIVES FURTHER BLOW AS
ANGLO IRISH FALLS UNDER STATE OWNERSHIP

REF: DUBLIN 573

11. (SBU) Summary: On January 15, the government of Ireland announced that it would nationalize Anglo Irish Bank. An initial recapitalization proposal was ruled out as difficulties associated with the commercial property market and internal controls further destabilized the Bank. The Minister of Finance has assured the public that the bank will continue to operate as usual with a new leadership team. Two other major banks are not predicted to require assistance beyond previously pledged funds. The investment of funds into the banking sector has placed considerable strain on public finances, and may contribute to further difficulties should Ireland's credit rating be downgraded. End summary.

12. (U) On January 15, the government of Ireland announced that it was nationalizing Anglo Irish Bank, the third largest Irish bank and the Irish subsidiary of Danish Danske Bank. Trading in the bank's shares was immediately suspended. In the past year, the bank's market capitalization had fallen dramatically from Euro 7 billion in January 2008 to Euro 164 million at market close on January 15. The government move echoes similar action by the British government following the collapse of Northern Rock in 2008. An independent assessor will determine what value, if any, shareholders will receive.

13. (U) Anglo Irish was generally considered to be an aggressively commercial bank. Its exposure to builders and property developers has been significantly higher than its peers and as such it has been disproportionately impacted by the bursting of the property bubble. Additionally, in December 2008, former Anglo Irish chairman, Sean Fitzpatrick, revealed that he had hidden loans of up to Euro 87 million over an eight-year period. Following this controversy, four of the Bank's top executives, including its Chairman and Chief Executive, and Ireland's Financial Regulator, Patrick Neary, resigned. The Bank revealed that during this period, substantial numbers of depositors had withdrawn their assets from the Bank. No further details have been released.

14. (U) Initially, the government planned to recapitalize Anglo Irish with a Euro 1.5 billion injection. However, on January 15, Minister for Finance Brian Lenihan, announced that the Bank's financial position had continued to deteriorate and that recapitalization was no longer a viable option. He assured the public that the bank would continue to operate as usual under the leadership of newly appointed chairman, Donal O'Connor, and that a new board would be put in place. He added that public financing would be required to further stabilize the bank, but did not quantify the amount.

15. (U) Ireland's two largest banks: Allied Irish Banks (AIB) and Bank of Ireland (BOI) have faltered during the recent economic downturn, but their relatively larger retail operations have cushioned the fall. AIB and BOI had exposure to the commercial property market of 37% and 26% respectively. This compares with 88% at Anglo Irish. Both will receive capital injections of Euro 1 billion from the

government. Neither analysts nor government sources predict that either of these institutions will share the fate of Anglo Irish.

16. (SBU) Comment: Ireland's troubled financial sector is placing additional pressure on its strained public finances. Analysts indicate that Ireland's credit rating is likely to slip, increasing the burden of future debt. With a projected debt to GDP ratio of 53% for 2009, Ireland may be unable to shore up any further difficulties in its largest banks. End Comment.

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